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MONTGOMERY WARD
Seventy-Fourth Annual Report
Twelve Months Ended
January 31
1946

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Montgomery Ward & Co.

INCORPORATED

(AN ILLINOIS CORPORATION)



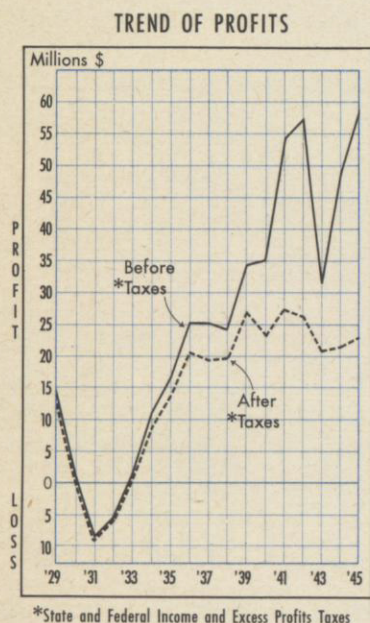
Seventy-Fourth Annual Report
Twelve Months Ended
January 31, 1946

Chicago, March 25, 1946

To the Shareholders of

Montgomery Ward & Co.:

Net profit for the fiscal year ended January 31, 1946 was \$22,932,025, equivalent to an earning of \$4.12



per share of outstanding common stock, after deducting dividends paid on the Class "A" stock. The comparable profit for the preceding year was \$21,285,839, or \$3.81 per share.

Profit before taxes on income amounted to \$58,257,025, or 8.9% of sales. The restrictive

effect of the excess profits tax imposed against the earnings for the year is evidenced by the increase of only \$1,646,186 in final net profit, compared with an increase of \$9,191,186 in earnings before taxes.

Net sales for the year were \$654,778,682, representing an increase of \$33,800,000, or 5.4%, over the sales for the preceding year. This dollar volume of sales exceeded all previous records, in spite of the necessity of returning more than \$94,000,000 to mail order customers because the merchandise which they ordered could not be supplied.

All divisions of the business continued to operate profitably. The earnings of the retail stores contributed materially to the improvement in the Company's total profit. The mail order sales volume was adversely affected during the early fall season by a strike in the printing trades which delayed the mailing of the Fall

and Winter General Catalog for approximately thirty days.

Cash and United States Government securities, including savings notes which will be used in the payment of Federal taxes, totaled \$134,400,914, at the close of the fiscal year, or \$54,408,779 in excess of total current liabilities. Merchandise inventories of \$137,599,751 were \$20,068,829, or 17.1%, higher than last year, although the total merchandise position, including orders in the hands of suppliers, was approximately 40% higher. Net working capital increased \$18,500,000, to \$240,607,921, and the ratio of current assets to current liabilities was 6.4 to 1.

Cash dividends totaled \$11,845,172, of which \$1,410,878 was paid to the Class "A" shareholders, and \$10,434,294, or \$2.00 per share, to the holders of common shares.

The earned surplus account was reduced by \$18,089,571 in connection with a restatement of the Class "A" and common stock accounts and the cancellation of 3,446 shares of Class "A" stock previously held in the treasury. Of the total adjustment, \$17,930,929 represents the restoration to the capital account of an amount equivalent to losses incurred prior to 1922 which had previously been absorbed against paid-in capital, and \$158,642, an adjustment necessary to reflect the cancellation of the Class "A" treasury shares. The outstanding Class "A" stock was recorded at its liquidating value of \$100 per share. After these adjustments, the earned surplus balance at the end of the year was \$102,515,547.

The capital stock accounts totaled \$167,125,235, and the book value of the outstanding common stock was \$47.82 per share.

The opportunity exists for a substantial volume and very satisfactory earnings for the coming year. The potential is threatened, however, by the current economic dislocations.

Respectfully submitted,

SEWELL AVERY,

Chairman of the Board

Montgomery Ward

Balance Sheet —

ASSETS

Current Assets:

Cash		\$ 13,123,486	
U. S. Government securities (short term)		85,769,428	
Receivables—			
Customers' time payment accounts	\$ 47,879,544		
Customers' charge and other accounts	4,112,481		
Due from suppliers, claims receivable, etc.	3,765,953		
	<u>\$ 55,757,978</u>		
<i>Less</i> —Reserves for doubtful accounts and collection expense	7,158,587	48,599,391	
Merchandise inventories (priced at the lower of cost or market)		<u>137,599,751</u>	
Total current assets		\$ 285,092,056	

Prepaid Catalog Costs and Expenses 8,403,588

Fixed Assets (at cost, less depreciation reserves):

Land	\$ 6,242,267		
Buildings	\$ 36,639,091		
Fixtures and equipment	29,012,953		
	<u>\$ 65,652,044</u>		
<i>Less</i> —Reserves for depreciation	36,267,371	29,384,673	
Leasehold improvements (less amortization)	4,028,052	<u>39,654,992</u>	
		<u>\$ 333,150,636</u>	

& Co., Incorporated

January 31, 1946

LIABILITIES

Current Liabilities:

Accounts payable.....		\$ 19,564,597
Due customers.....		14,599,864
Accrued expenses and miscellaneous taxes.....		10,319,674
Provision for Federal income taxes.....	\$ 35,508,000	
Less—U. S. Treasury savings notes.....	35,508,000	—
Total current liabilities.....		\$ 44,484,135

Reserves:

Possible future inventory price decline.....	\$ 16,000,000	
Self-insurance and contingencies.....	3,025,719	19,025,719

Capital Stock and Surplus:

Class "A"—Authorized 205,000 shares of no par value, non-callable, \$7.00 per share cumulative dividends; issued 201,554 shares, stated at liquidating value.....	\$ 20,155,400	
Common—Authorized 10,000,000 shares of no par value; issued 5,217,147 shares, at stated value..	146,969,835	
Earned Surplus.....	102,515,547	269,640,782
		<u>\$ 333,150,636</u>

Montgomery Ward & Co., Incorporated

Comparative Income Account

	<i>Year Ended January 31</i>	
	<i>1946</i>	<i>1945</i>
NET SALES.....	\$ 654,778,682	\$ 620,968,523
DEDUCT—		
Cost of sales, selling, and general expenses, and all taxes other than income taxes.....	\$ 593,159,432	\$ 568,377,245
Depreciation and amortization of fixed properties.....	3,362,225	3,525,439
	<u>\$ 596,521,657</u>	<u>\$ 571,902,684</u>
Net profit before taxes on income.....	\$ 58,257,025	\$ 49,065,839
PROVISION FOR INCOME TAXES—		
Federal and state income taxes.....	\$ 13,840,000	\$ 12,950,000
Excess profits taxes.....	21,485,000	14,830,000
	<u>\$ 35,325,000</u>	<u>\$ 27,780,000</u>
Net profit for the year.....	<u>\$ 22,932,025</u>	<u>\$ 21,285,839</u>

Earned Surplus Account

BALANCE JANUARY 31, 1945.....	\$ 109,518,265
NET PROFIT FOR THE YEAR ENDED JANUARY 31, 1946.....	22,932,025
Total.....	\$ 132,450,290
DEDUCT—	
Dividends on Class "A" stock—\$7.00 per share..	\$ 1,410,878
Dividends on Common stock—\$2.00 per share..	10,434,294
Surplus capitalized in connection with restatement of Class "A" and Common stock and cancellation of Treasury stock.....	18,089,571
	<u>29,934,743</u>
BALANCE JANUARY 31, 1946.....	<u>\$ 102,515,547</u>

ARTHUR ANDERSEN & CO.

120 SOUTH LASALLE STREET
CHICAGO 3

To the Board of Directors,

Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of MONTGOMERY WARD & CO., INCORPORATED (an Illinois corporation) as of January 31, 1946, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods, at times, and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the company at January 31, 1946, and the results of its operations for the two years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,
March 8, 1946

ARTHUR ANDERSEN & CO.

Montgomery Ward

Comparison of

January 31

1946

1945

1944

1943

ASSETS

Cash and U. S. Securities . .	\$ 98,892,914	\$ 95,509,773	\$ 77,203,467	\$ 44,104,978
Receivables, less Reserves . .	48,599,391	48,693,043	42,054,432	53,539,393
Merchandise Inventories . .	137,599,751	117,530,922	124,577,979	139,733,375
Total Current Assets . . .	\$ 285,092,056	\$ 261,733,738	\$ 243,835,878	\$ 237,377,746
Prepaid Expenses	8,403,588	8,819,426	8,789,158	9,345,872
Investments, etc.	—	4,505,000	2,685,000	2,045,000
Fixed Assets	39,654,992	41,753,415	44,278,550	46,360,093
	<u>\$ 333,150,636</u>	<u>\$ 316,811,579</u>	<u>\$ 299,588,586</u>	<u>\$ 295,128,711</u>

LIABILITIES

Current Liabilities	\$ 44,484,135	\$ 39,652,470	\$ 31,777,287	\$ 36,986,928
Reserves	19,025,719	18,605,180	18,698,037	17,860,447
Capital Stock	167,125,235	149,035,664	149,035,664	149,035,664
Earned Surplus	102,515,547	109,518,265	100,077,598	91,245,672
	<u>\$ 333,150,636</u>	<u>\$ 316,811,579</u>	<u>\$ 299,588,586</u>	<u>\$ 295,128,711</u>
Net Working Capital	<u>\$ 240,607,921</u>	<u>\$ 222,081,268</u>	<u>\$ 212,058,591</u>	<u>\$ 200,390,818</u>

& Co., Incorporated

Balance Sheets

January 31

1942	1941	1940	1939	1938	1937
\$ 15,955,864	\$ 16,413,449	\$ 14,396,412	\$ 24,392,658	\$ 18,515,251	\$ 17,130,892
91,073,514	94,715,917	78,880,212	62,593,191	57,353,769	44,355,143
123,102,953	101,710,763	96,323,612	81,494,245	77,361,847	87,174,188
\$ 230,132,331	\$ 212,840,129	\$ 189,600,236	\$ 168,480,094	\$ 153,230,867	\$ 148,660,223
10,508,082	8,357,296	7,153,715	6,655,355	6,412,777	5,912,666
678,173	856,718	5,234,916	6,012,451	6,648,497	7,257,670
48,981,230	49,623,060	49,848,029	46,683,090	46,896,602	44,851,570
\$ 290,299,816	\$ 271,677,203	\$ 251,836,896	\$ 227,830,990	\$ 213,188,743	\$ 206,682,129
\$ 51,239,949	\$ 49,362,756	\$ 40,704,949	\$ 31,901,198	\$ 27,675,902	\$ 29,885,833
7,370,943	1,132,067	1,132,412	1,095,730	1,087,137	1,004,358
149,035,664	149,035,664	149,035,664	149,035,664	149,035,664	147,779,264
82,653,260	72,146,716	60,963,871	45,798,398	35,390,040	28,012,674
\$ 290,299,816	\$ 271,677,203	\$ 251,836,896	\$ 227,830,990	\$ 213,188,743	\$ 206,682,129
\$ 178,892,382	\$ 163,477,373	\$ 148,895,287	\$ 136,578,896	\$ 125,554,965	\$ 118,774,390

Montgomery Ward

Comparison of Sales,

FISCAL YEAR ENDED JANUARY 31	NET SALES	PROFIT BEFORE INCOME TAXES	INCOME TAXES	NET PROFIT
1946	\$ 654,778,682	\$ 58,257,025	\$ 35,325,000	\$ 22,932,025
1945	620,968,523	49,065,839	27,780,000	21,285,839
1944	595,932,821	31,932,098	11,255,000	20,677,098
1943	635,006,979	57,597,584	31,160,000	26,437,584
1942	632,708,657	54,011,716	26,660,000	27,351,716
1941	515,910,915	35,083,017	12,055,000	23,028,017
1940	474,882,032	34,310,645	7,300,000	27,010,645
1939	413,961,241	24,044,956	4,400,000	19,644,956
1938	414,090,544	25,110,029	5,900,000	19,210,029
1937	361,297,059	25,198,914	5,000,000	20,198,914
Totals	\$ 5,319,537,453	\$ 394,611,823	\$ 166,835,000	\$ 227,776,823

& Co., Incorporated

Earnings, and Surplus

COMMON STOCK EARNINGS PER SHARE		DIVIDENDS	INVENTORY PRICE DECLINE RESERVE (End of Year)	EARNED SURPLUS (End of Year)	BOOK VALUE PER COMMON SHARE
BEFORE TAXES	AFTER TAXES				
\$ 10.90	\$ 4.12	\$ 11,845,172	\$ 16,000,000	\$ 102,515,547	\$ 47.82
9.13	3.81	11,845,172	16,000,000	109,518,265	45.70
5.85	3.69	11,845,172	16,000,000	100,077,598	43.89
10.77	4.79	11,845,172	15,000,000	91,245,672	42.19
10.08	4.97	11,845,172	5,000,000	82,653,260	40.54
6.45	4.14	11,845,172	—	72,146,716	38.53
6.31	4.91	11,845,172	—	60,963,871	36.38
4.34	3.50	9,236,598	—	45,798,398	33.48
4.54	3.41	11,832,663	—	35,390,040	31.48
5.21	4.12	19,318,175	—	28,012,674	29.98
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\$ 73.58	\$ 41.46	\$ 123,303,640			
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Montgomery Ward & Co., Incorporated

DIRECTORS

SEWELL L. AVERY, *Chairman*

PHILIP R. CLARKE

DAVID A. CRAWFORD

GEORGE A. EASTWOOD

PERCY B. ECKHART

CHARLES F. GLORE

WILLIAM L. KEADY

DONALD R. McLENNAN, JR.

*SILAS H. STRAWN

JAMES W. THORNE

GEORGE WHITNEY

*Chairman, Executive Committee — Deceased

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ROBERT E. HARRISON.....*Vice-President*

CHARLES M. ODORIZZI.....*Vice-President*

PHILIP W. HARRIS.....*Vice-President*

ROBERT S. SMITH.....*Vice-President and Treasurer*

LESLIE F. CREWS.....*Vice-President and Comptroller*

STUART S. BALL.....*Secretary*

ARTHUR R. CAHILL.....*Assistant Treasurer*

EARL G. WARD.....*Assistant Treasurer*

JOHN A. BARR.....*Assistant Secretary*

RALPH G. CRANDALL.....*Assistant Secretary*

Transfer Agents

THE NORTHERN TRUST CO., CHICAGO, ILL.

J. P. MORGAN & CO., INCORPORATED, NEW YORK, N. Y.

Registrars

THE FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILL.

BANKERS TRUST COMPANY, NEW YORK, N. Y.



